Testimony of Keith Brainard to the
Alaska Senate Finance Committee
May 2, 2023

Members of the committee: my name is Keith Brainard and I serve as research director of NASRA, the National Association of State Retirement Administrators. Our members are the directors and administrators of roughly 90 statewide and local public retirement systems. In Alaska, our member is Ajay Desai, who is the director of the division of retirement and benefits. My opinions do not necessarily reflect those of Mr. Desai or his office.

I want to focus my remarks on NASRA's position on retirement plan design, and to tell you that it is possible to design a retirement plan that meets the needs of all stakeholders in Alaska, including public employees, employers, and taxpayers. It is possible to design a retirement plan that does not create large unfunded liabilities, or any unfunded liabilities at all, and whose cost you can control. And SB 88 appears to go a long way toward accomplishing those important objectives.

NASRA does not specifically support one type of retirement plan, such as a defined benefit or a defined contribution plan. We do support a retirement plan that contains features that are known to achieve key objectives for plan stakeholders, such as:

- Cost sharing between employers and employees. That means that employers and employees alike should contribute to the cost of the plan.
- Assets that are pooled and professionally managed, an arrangement that can and usually does generate higher investment returns with less risk.
- Targeted income replacement. Structuring a retirement plan to replace a certain percentage of pre-retirement wages at a specified age and/or years of public service promotes retirement security for employees and an orderly progression of personnel for employers. Such an arrangement allows employees to retire at an appropriate point in their physical lives, which facilitates important human resources objectives for employers.
- Lifetime benefit payouts, meaning that once an employee qualifies for a retirement benefit and elects to retire, that employee should be able to receive a benefit they cannot outlive.
- Survivor and disability benefits should be integrated into retirement programs, a feature that is particularly important for positions involved in hazardous duty, or a public safety plan.

These core features of retirement plan design are known to promote retirement security for employees, to reduce overall costs associated with fees and expenses, and to enhance the ability of employers to attract and retain employees.

Compared to the pension plan that was closed in 2006, my understanding is that under SB 88, Alaska public employees would contribute a higher percentage of their salary, they would need to work either longer or until attaining a higher age to qualify to receive a benefit, and any postretirement adjustment would depend on the fund being in sound actuarial condition. In addition, general employees, that is, those who are not teachers or public safety officers, who work more than 10 years, would receive a lower benefit.

One notable attribute of the plan proposed by SB 88 is its risk-sharing features. In 2005, when Alaska switched from a defined benefit to a defined contribution plan, risk-sharing plans were less common and less developed than they are today. Over the last 18 years, we have witnessed a significant evolution in public retirement plan design. Risk-sharing plan designs are more common and better developed and understood than they were in 2005. NASRA published a paper in 2019 describing many examples of innovative risk-sharing retirement plan designs in use among states and local government. Many of these new plan designs were developed just in the last 10 or 15 years.

At the core of these plan designs are essential features of a sound retirement plan: cost-sharing between employees and employers; assets that are pooled and invested by professionals; a benefit that cannot be outlived; targeted income replacement; and survivor and disability benefits.

Incorporating risk-sharing elements into a retirement plan with these essential features can provide the best of all worlds: a retirement plan that meets the needs of all stakeholders while also protecting employers and taxpayers against unsustainable increases in unfunded liabilities and costs.

I'd like to briefly describe three specific examples of retirement plans where this is done:

- The South Dakota Retirement System has offered all public employees in that state a traditional pension plan for decades with fixed contribution rates. Since 2002, that contribution rate for employees and employers has been 6.0 percent; 8.0 percent for public safety personnel. The SDRS also has no unfunded liability, and generally has not had one for years. The retirement system accomplishes this by making benefits variable. When the plan's actuarial experience falls short of expectations, benefits are adjusted so that the plan remains fully funded and the fixed contribution rate remains adequate.

- In 2018, Colorado established risk-sharing features in its retirement plan for teachers and employees of state and local government. This plan allows for incremental increases in employee contribution rates, up to two percent in total, and adjustments in the cost-of-living adjustment, if specified actuarial and funding targets are not met. These flexible arrangements for employee contributions and cost-of-living adjustments are similar to those proposed in SB 88.

- The third example I want to share with you is from the City of Houston, Texas. This plan design was created in 2017 and applies to each of the city's three retirement plans, for firefighters, police officers, and general employees. The central feature of the Houston plans is a contribution corridor arrangement that restricts the change in the employer contribution rate to five percent of pay. If the required cost of the plan strays from the target rate by more than five percent, a series of specified changes take effect to bring the contribution rate back into the five percent corridor. Those changes include adjustments to actuarial methods and assumptions, benefit levels, and employee contribution rates.

SB 88 proposes a trigger to increase employee contribution rates should the plan funding level fall below 70 percent and would prohibit paying a COLA if the plan's funding level is below 90 percent. These provisions will help protect the plan against higher liabilities and costs and are consistent with many other retirement plans that have been developed or reformed in recent years.

I want to commend the bill's authors for your work in proposing such a thoughtful retirement plan design. This retirement plan would return Alaska to the mainstream of public retirement policy and strengthen the ability of schools, police and fire departments, and other public employers to attract and retain qualified and essential public employees. I urge the committee and the legislature to approve this bill. Thank you.